

State of the Town Message 2019 MAY 15 AM 9:44

This evening the Finance Committee and Town Administrator are presenting you with a balanced budget for Fiscal Year 2020. Our growing demand for services continues to exceed our ability to grow our revenues.

With the Prop 2-1/2 levy limit increasing by \$937,887, new growth estimated at \$550,000, an expected State Aid increase of \$107,815, and local receipts estimated to increase by \$806,927, the Town's increase in new revenue money for FY20 is \$2,402,629.

Our proposed operating budget of \$61,996,457 is an increase of 6.4% over the FY19 budget. There are three major components of this increase:

- 1) The largest increase is a 38% increase in debt service, which amounts to \$1,696,934. This is due to borrowing to fund the new Sewer Treatment Plant (which is offset by an increased transfer from the Sewer Enterprise Fund), and debt exclusions for the new Library addition and the new DPW building.
- 2) Continually rising health insurance costs (which affect all municipalities) account for an increase of \$474,650, or 6.4%, in the "unclassified" budget category.
- 3) The Grafton Public Schools budget was increased by 4.5%, or \$1,575,313, a smaller increase than the increase of 5.25% or \$1,745,460 in FY19.

Exclusive of these three components, the remainder of the operating budget has actually decreased by \$634 from FY19.

Balancing the budget for FY20 presented some significant challenges, given the fiscal restraints. Even with all those challenges, the proposed operating budget will be able to meet all its contractual obligations, provide modest pay increases to non-union employees, continue to provide adequate town services, and cover our debt obligations.

FY19 was the last year for which the 2014 override provided additional money to the schools. Without this additional money, the schools are now struggling to meet all their obligations and provide a quality education that is acceptable. The school department's preliminary request was for a 5.47% increase for a level service budget, but budget constraints limited the increase to 4.5%.

For added FY20 staffing, the schools will be able to meet the mandated requirement for two new SPED teachers, and add a necessary Adjustment Counselor for PreK-6. However, they are not able to provide additional staffing for the high school, nor are they able to reinstate needed staffing that was cut from a previous budget. Altogether, \$377,825 was cut from the preliminary request to reach the 4.5% increase. Without any override money to assist with expenses, this borders on a line of marginally stable funding for the schools for FY20.

Other Town Departments did not fare well either. Their budgets are very lean. Apart from the increases in debt service, health insurance, and schools, the rest of the departments came in at a \$634 decrease from last year, with a proposed budget of \$11,399,956.

In order to balance the budget, the Town Administrator reduced a position from full-time to part-time in the Town Administrator/Board of Selectmen office, a full-time position in the Treasurer/Collector office was cut, in Facilities Maintenance a custodian's hours were reduced, and the Economic Development Coordinator position was removed from the operating budget to a warrant article to be funded out of Free Cash. Two positions not currently filled – the Assistant Town Planner and the Conservation Agent – will now be a combined position for FY20.

Further reductions to balance the operating budget were the removal from the operating budget of two police cruisers and 2000 ft. of hose and 6 Hydra Assist valves from the Fire department, placing these items instead in the Capital Budget. While the Finance Committee understands the reasoning behind using Free Cash instead of the operating budget for these items for FY20, the Finance Committee recommends these items return to the operating budget in the future since they are essential to the everyday operations of the departments. By doing this, it allows other capital needs to move up the capital list.

Capital items proposed by the Town Administrator and approved by the Capital Planning and Improvement Committee for FY20 totals \$986,622. Unfortunately, there still is a lengthy inventory of Capital items awaiting funding.

Our current financial status is in a stable condition. Our reserves as defined by our auditor include stabilization funds, free cash, and excess levy capacity. These reserves are currently healthy.

We have \$3,812,643 combined in our Stabilization and Capital Stabilization funds. However, we will not be able to add any money to these stabilization funds in FY20. Keeping these funds between 5-10% of our annual budget allows us to maintain a favorable rating with credit bureaus, which reduces our long term borrowing costs. We continue to maintain a AA+ bond rating.

Our Free Cash came in at 1.9M. If all articles funded by free cash are approved this evening, the remaining Free Cash balance will be \$812,627.

Our excess levy capacity for FY20 is minimal, at only a few thousand dollars.

In 2019, the average assessed value of a single family home is \$391,984, and the tax rate is \$16.66 per thousand (a little more than the previous year), resulting in an average single family tax bill of \$6,530. 8% of that tax bill is due to debt exclusions.

Grafton's median income is \$100K per household and \$47K per person. A note of interest – in 2018 the Department Of Revenue reported Grafton's income **as a community** was \$874,673,000, which is the highest reported in all of Grafton's sister communities.

Looking forward, Grafton is going to be facing some difficult decisions. While we have succeeded in creating a balanced budget for FY20 by making some difficult cuts, the increases in available revenue in future years do not keep up with even the most conservative estimates of increased expenses that will be incurred to provide the services that are expected of the Town. The long-term forecast that was presented by the Town Administrator does not look favorable.

We need to be cognizant of the trends in both revenue and expenses.

Proposition 2-1/2 places a stringent limit on the increase in property taxes, preventing property taxes from increasing to meet inflation. In addition, State aid increases have for many years failed to keep up with inflation.

It is particularly important to be mindful of the fiscal issues we will be encountering: unfunded OPEB liabilities, sustainable wage increases, reductions in state aid, continued increases in health insurance costs, growth in employee benefits, needs for additional staffing in the fire department and other departments. We need to stay on top of our capital needs and search for creative ways, other than our limited Free Cash to meet them. The Town Administrator has been diligently pursuing economic development; it is essential that this be continued.

In conclusion, it will be important to take a comprehensive look at various aspects of our Town government in order to identify the questions and issues with which our Town must grapple to deal with levels of municipal and educational services and long-term funding. The Town must find innovative ways to deal with these issues, and to do so from a wide variety of perspectives. This will equip us with a better understanding of how to address our coming funding and service choices, whether it be an override, changes in services provided, or other yet-to-be-identified ideas. The public needs a thorough understanding of our Town's revenue outlook and service needs, in order to build the necessary community support for the actions that the Town will need to take in the coming years.

I would like to thank the Town Administrator, Tim McInerney, our Assistant Town Administrator, Rebecca Meekins, the Board of Selectmen, the Town Accountant, Anita Patel, the Superintendent of Schools, Jay Cummings, the Schools' Director of Finance, Dan Gale, the School Committee, all Department Heads, the Finance Committee, and Sue Fiacco, our assistant to the Finance Committee, for all their contributions and hard work to bring the FY20 budget to you this evening.